

Syrian Budget Report - 2006

1. The 2006 budget, the first under the much-touted 10th 5-year plan (reftel), broke no new ground. As in previous years, the budget calls for increased public sector funding and indicates a continuing commitment to a centralized economy. Revenue still is mainly dependent on oil exports, although the budget shows that the SARG is expecting higher tax revenues to offset the loss of tariff receipts from Syria's entrance into the Greater Arab Free Trade Agreement (GAFTA). Although Finance Minister Dr. Mohammed al-Hussein presented the budget as promoting economic growth, improving the standard of living, developing human resources, and creating job opportunities, the actual numbers belie the SARG's recent emphasis on economic reform. End summary.

PUBLIC SECTOR CONTINUES TO GROW

2. Syria's 2006 budget, which was signed by President Asad on December 11, 2005, shows that the public sector will continue to expand. The budget calls for total expenditures of USD 9.9 billion, which is a 7.6 percent increase over 2005 and the largest annual increase in expenditures in three years. The budget assigns 61 percent of allocations (USD 6 billion) for "current expenditures", covering everything from government salaries, education, and public transportation to foreign affairs, defense and internal security, and 39 percent (USD 3.9 billion) for "investment expenditures" to modernize and upgrade Syria's public sector companies. The budget projects that 56,985 new public sector jobs will be created. To support these new jobs and provide the promised wage hikes, the budget shows a 16 percent increase in public sector salaries, from USD 1.4 billion in 2005 to USD 1.7 billion. However, the 5 percent wage increase announced in early February was not accounted for in the 2006 budget.

3. Two budget line items are of particular interest. Publicly acknowledged defense allocations, comprising 12.6 percent of total expenditures, was one area of public spending that did not increase. For the first time ever, defense allocations actually dropped 3 percent, from USD 1.3 billion in 2005 to USD 1.2 billion in 2006. While some sources attributed the drop to Syria's withdrawal from Lebanon, information on defense and internal security spending is closely held and therefore the budget figures are highly suspect. The budget also allocated a mere USD 500 million to be spent on government subsidies of basic foodstuffs, electricity, and heating oil (diesel). Since the real cost of government subsidies on diesel alone is estimated to exceed USD 1 billion annually, it is believed that the SARG is trying to hide expenses to cover the true size of its deficit.

OIL REVENUES CONTINUE TO BE THE LIFEBLOOD

4. The majority of revenue to cover the 2006 budget comes from oil exports. Officially, 41 percent (USD 3.6 billion) of USD 8.7 billion in total expected revenue for 2006 is anticipated from the sale of oil. However, the actual size of the oil export revenue probably is much more. The SARG assumes a price of USD 28 per barrel for heavy crude and USD 35 for light crude in making its budget calculations. With actual prices hovering around USD 60 per barrel, revenue from oil sales could be nearly double the published figure.

5. The 2006 budget anticipates tax receipts to comprise a larger portion of government revenue. According to the budget, the SARG expects to collect USD 3.2 billion in revenues from corporate profit and income taxes as well as consumption and sales taxes, an increase of 12 percent over 2005. The SARG passed a series of new tax laws at the end of 2005 to rationalize and lower tax rates, and increase penalties for tax evasion in order to increase the rate of tax collection. Adding

to the expectation that tax revenue will increase is that the tax exemption periods for investment projects established under the 1991 Investment Law are ending this year.

6. While tax receipts are expected to increase, the budget shows a decrease in the expected revenue from indirect taxes such as tariffs, fees, and stamps. The budget shows revenue from these sources dropping 9 percent in 2006, from USD 697 million in 2005 to USD 637 million in 2006. Sources attribute the decline in indirect tax revenue to the more than 100 percent reduction in the tariffs on imported automobiles, and Syria's January 1, 2005 entry into GAFTA. The decline in tariff revenue alone totaled 27 percent, down to USD 300 million.

7. According to the anticipated revenue and expenditures reported in the 2006 budget, the SARG expects a deficit of USD 1.2 billion or 4.4 percent of GDP. The information provided in the budget outline states that the deficit results from the increase in public sector salaries, subsidies, and social services, and that the SARG will cover the deficit with USD 793 million from reserve funds in the Central Bank and USD 385 million in external loans. However, it is unlikely that the reported size of the deficit is accurate because of the SARG's accounting procedures. In addition to understating the cost of subsidies, for the second straight year, the SARG used the overvalued government exchange rate of 50 SP/USD to prepare the budget, which is denominated in Syrian Pounds. This will result in higher than budgeted expenses and lower than budgeted income.

8. Comment: Although greater changes were anticipated in this year's budget, the budget fails to give any indication that the SARG is taking steps to move away from its centralized economy. Furthermore, it shows that the SARG is continuing to rely on oil exports to prop up its economy, and that it is making no significant moves at least in the short term to establish alternative sources of income. End comment.

THE BUDGET BY THE NUMBERS

10. According to the 2006 budget, government ministries receive the following amounts and percentage of the budget:

Ministry	Millions USD	Percentage
Defense	1,244	12.6
Interior	253	2.5
Foreign Affairs	90	0.9
Information	70	0.7
Immigration	1	0.0
Higher Education	362	3.6
Education	626	6.3
Culture	38	0.4
Labor/Social Affairs	12	0.1
Health	155	1.6
Economy	12	0.1
Finance (a)	2,002	20.2
Agriculture	435	4.4
Irrigation	121	1.2
Petroleum	240	2.4
Industry	242	2.4
Electricity	521	5.3
Water	210	2.1
Building	18	0.2
Tourism	19	0.2

Trade	66	0.7
Telecommunications	142	1.4
Transportation	385	3.9
Grain Storage	43	0.4
Presidency	27	0.3
Parliament	10	0.1
Prime Ministry	114	1.1
Justice	27	0.3
Housing	105	1.1
Real Estate	54	0.6
Local Administration/ Environment (b)	1,003	10
Governorates	541	5.5
Waqf	5	0.0
Investment Capital/ For Public Sector	20	0.2
Price Stabilization/ Fund (subsidies)	500	5.0
Reserve Credits for/ Investment Project	151	1.5

11. 2005-2006 Budget Comparisons

	2005 Millions of Dollars	2006 Millions of Dollars	Percentage of change
Revenues			
Taxes and duties	3,539	3,826	8
Fees and royalties (oil)	513	702	37
Contributions of state enterprises			
(Surplus and depreciation)	2,873	3,860	34
Other income	198	335	69
Total	7,123	8,723	22
Expenditures			
Total	9,200	9,900	7.6
-Current	5,600	6,000	7
-Capital	3,600	3,900	8
External grants and loans tied to projects			
-Under capital expenditure	2,077	1,178	-43
"Financing gap"	383	385	0.5
External "Arab" financing	0	0	0
Budget deficit financed by Central bank borrowing	1,694	793	-53

12. FUNCTIONAL BREAKDOWN OF EXPENSES

	2005 Millions of Dollars	2006 Millions of Dollars	Percentage of change
Current	5,600	6,000	7
Chapter I – Salaries	1,486	1,718	16
Chapter II – Admin	397	428	8
Chapter IV – Transfers	567	620	9
Chapter V - Pensions	1,337	1,453	9
Current not allocated by chapters:			
Defense	1,280	1,244	-3
Presidency/parliament	32	37	14
Chapter III – Capital	3,600	3,900	8
Total	9,200	9,900	7.6

13. BREAKDOWN OF INCOME SOURCES

	2005 Millions of Dollars	2006 Millions of Dollars	Percentage of Change
Direct taxes	2,842	3,189	12
- Businesses	2,280	2,520	10
- Salaries	120	120	0
Indirect taxes	697	637	-8
- Customs	412	300	-27
- Stamps	130	170	31
- Fees	30	30	0
Total taxes and duties	3,539	3,826	8
Services and royalties	513	702	37
- Oil royalties	472	653	38
Contribution of state Enterprises (surplus)	2,873	3,860	34
- Extraction (petroleum)	1,371	1,874	37
- Banks and finance	236	575	143
- Converting (refinery)	217	238	9
- Transportation and Communications	588	685	16
- Electricity, gas, and Water	192	216	13
Other income	198	335	69
Total revenues	7,123	8,723	22
Revenue deficit Financed by:	2,077	1,178	-43
External grants and loans	382	385	0.7
Central bank borrowing	1,694	793	-53